

Annual statement regarding governance

The Trustee of the Rexel UK Pension Scheme (the 'Scheme') presents its annual Chair's Statement on governance (the 'Statement') as required under legislation. The Statement covers the period 6 April 2019 to 5 April 2020.

The default investment option

In accordance with the Administration Regulations, the Trustee is required to append the latest copy of the Statement of Investment Principles (the 'SIP') prepared for the Scheme. A copy of the Scheme's SIP is attached to this Statement.

The Trustee undertook with its investment advisers a formal triennial review of the default investment strategy in 2020 and this was presented at the 12 March 2020 Trustee meeting, to ensure that the strategy continued to remain appropriate for the membership and continued to have a suitable "at retirement" target.

During the current year there were no changes made to the Lifestyle profile and at retirement objective but the decision, made following advice in 2018, to switch the Aberdeen Standard GARS Fund to the Aberdeen Standard DGF was implemented with effect from May 2019. This switch was made following advice from the Trustee's investment adviser, Barnett Waddingham and followed concerns regarding the ability of the Aberdeen Standard GARS fund to meet its investment objectives and hence the desired returns under the default strategy.

The Trustee's main investment objective for the DC section is to invest members' accumulated contributions under the Scheme appropriately, taking into account:

The risk that the investment return achieved on a member's account over the member's working life will not keep pace with price and wage inflation;

The risk that investment market movements in the period immediately prior to retirement may lead to a substantial reduction in the anticipated level of pension;

The risk that relative market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated cash lump sum benefit;

Having regard of the various methods that members are able to take their benefits from the Scheme.

Taking these investment objectives into account the post May 2019 default investment strategy for the Scheme is the Rexel Growth Fund (with Lifestyling Profile). Up to 10 years from retirement the member's assets are invested in the Rexel Growth Fund that invests broadly 50% in the L&G Rexel Consensus Fund and 50% in the Aberdeen Standard DGF. When a member is 10 years from retirement the allocation to the L&G Rexel Consensus Fund and the Aberdeen Standard DGF are incrementally switched into the L&G Cash Fund over time such that at a member's retirement age the assets are held 25% in the Aberdeen Standard DGF and 75% in the L&G Cash Fund.

The Trustee's review that took place during the Scheme year concluded that the default arrangement is performing broadly as expected and is consistent with the aims and objectives of the default investment strategy as stated in the SIP.

The next triennial review is due to be undertaken by 12 March 2023. However, in addition to the triennial strategy review, the Trustee also reviews the performance of the default arrangement against their aims, objectives and policies on a quarterly basis. This quarterly review includes an analysis of fund performance and member activity to check that the risk and return levels meet expectations.

Requirements for processing financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately.

This includes:

- Investment of contributions paid to the Scheme;
- Transfer of members' assets into and out of the Scheme;
- Transfers of members' assets between different investment options available in the Scheme; and
- Payment from the Scheme to, or in respect of, members.

The process controls for the above are set out in the Assurance Report on Internal Controls which provides an independent assessment of the financial control processes employed by XPS and the Scheme has a service level agreement ("SLA") in place with XPS, as the administrator, which covers the accuracy and timeliness of all core financial transactions. With regards to each of the above, the following controls are in place:

Contributions:

The deduction and payment of contributions across to the Trustee is processed by the Company. The Company ensures that contributions are remitted each month in a prompt and accurate manner and within legislative deadlines and this is monitored by XPS.

Contributions deducted are reconciled against the monthly client schedule, with any anomalies investigated as a matter of urgency. The final schedule sent to the investment managers is reviewed by a senior member of staff and all funds are processed via Straight Through Processing (STP) to avoid manual intervention / transcription. The electronic instructions are monitored by the administrator and a manager until the investment schedule is returned (again via STP) at which point system units are reconciled against the investment manager units to ensure they balance, with any discrepancies flagged, investigated with the employer and resolved as a matter of urgency. XPS operate a 5 working day turnaround from reconciled receipt of contributions by the Trustee to those funds being sent to the investment manager.

Switches of member assets between funds:

Members can switch their contributions to one or more of the funds available under the Scheme by writing to or telephoning XPS, the Scheme administrator.

Lifestyle switches are activated by the Defined Contribution (DC) administration system which is triggered in accordance with the life styling matrix. The relevant checklist is completed by an administrator and signed off by a senior member of staff. Switching instructions are then sent to the investment managers via STP and, as with monthly contributions, are tracked until the switched unit allocations are returned via STP. Switched unit holdings between the investment manager and the system are then reconciled, with any discrepancies investigated and resolved as a matter of urgency.

Members that wish to change their contributions are required to contact the Company to make the required change.

Transfers Out and payments made to members:

Benefit calculations and payment requisitions are either generated automatically by the system (as programmed), or manually by reference to the rules. The workflows ensure that each process is completed by an administrator and independently checked by an authorised person. The process can only be authorised once all of the required steps have been completed, so that each case undergoes independent checking. Figures and details are only issued once the workflow has been fully authorised. For payments, transactions are created in the banking software; before release the transactions undergo a minimum 3 stage checking process (one stage of which is performed by an independent cashiering team unconnected with the Administration team). Throughout the process the authorising supervisor will also use a pre-defined checklist to ensure that all stages have been completed in a timely manner and that all information, figures and any payments made are accurate and complete.

The above controls and reconciliations take place on a monthly basis, with any necessary actions arising from discrepancies taken within the same month. Each quarter, at full board Trustee meetings, information and reports detailing the financial transactions over the quarter are produced by XPS and are reviewed by the Trustee.

In addition to the monthly and quarterly reviews, the control processes, and control environment at XPS are independently audited by BDO against the stated AAF controls. The most recent annual assessment was undertaken in Quarter 1, 2020 and did not highlight any areas of concern.

For the period covered by this report all contributions were paid over by the employer to the Trustee within the statutory timeframe. XPS invested all but one month within a 5 day turnaround.

To supplement the financial control processes within XPS, the Pensions Manager at Rexel UK Ltd in conjunction with XPS is refining the process and the sharing of information between the Company and XPS as the Scheme's administrators, to increase the synergy and control between the Rexel finance and payroll functions and XPS Administration.

The Scheme's risk register details the risks to the members and it is monitored at each Trustee meeting and is reviewed on at least an annual basis.

The Trustee receives quarterly reports about XPS's performance and compliance with the SLA; using information provided by XPS, which has been reviewed by the auditors, the Trustee is satisfied that over the period covered by this statement:

- XPS was operating appropriate procedures, checks and controls and operating within the agreed SLA;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

Covid-19

The Trustee Directors are keeping the wider implications of the Covid-19 pandemic under review with their advisers and, on an operational level, are working with XPS to minimise any disruption to service delivery (for example, any delays to responding to member enquiries and processing transactions at this time). XPS have informed the Trustee that they have successfully implemented their business continuity plan and that the impact on service delivery has been minimal. We continue to communicate to members to keep them informed of any impact on their investments.

Charges and transaction costs

As required by the Administration Regulations, the Trustee has set out below its report on the charges and transaction costs for the investments used in the default arrangements and its assessment on the extent to which the charges and costs represent value for members.

The Management charges – These are the charges taken by the fund manager to cover their costs and expenses. They are deducted from the fund every day before unit prices are calculated.

Additionally members pay an administration fee of 0.30% p.a. of the value of their Retirement Account as a contribution to the cost of the Scheme administration. This amount is calculated and deducted on a quarterly basis.

Transaction costs are the total of the 'Buying and Selling' costs and 'Lending and Borrowing' costs as described below.

In accordance with FCA & DWP regulations, governance bodies of workplace pension schemes must perform a value for money assessment for their scheme which includes looking at the costs involved in managing pension funds. The table produced should also show the transaction costs, where available, for the funds used within the default investment strategy and for the funds available for members to self-select, and is provided to assist with value for member assessments.

The Trustee will liaise with the fund managers to improve the availability and frequency of transaction cost reporting. Transaction costs have been added to the quarterly Trustee meeting investment review agenda and quarterly reporting has been requested in future to support monitoring, including the provision of the blended fund transaction costs.

The FCA has prescribed the 'slippage cost' methodology for calculating transaction costs. The slippage cost methodology calculates the transaction cost of buying or selling an investment as the difference between the price at which an asset is valued immediately before an order is placed into the market and the price at which it is actually traded.

Fund Name	Annual Management Charge (AMC)	Annual Administration fee	Annual Transaction Costs
Rexel Growth Fund (with Lifestyling Profile)			
LGIM Cash Fund	0.125%	0.30%	0.00%
LGIM Rexel Consensus Index Fund	0.18%	0.30%	Not available (blended fund)
Aberdeen Standard GARS Fund	0.70%	0.30%	0.01%
Aberdeen Standard DGF*	0.50%	0.30%	0.00%
Self-select funds			
LGIM World (ex-UK) Equity Index Fund	0.22%	0.30%	-0.01%
LGIM UK Equity Index Fund	0.10%	0.30%	-0.02%
LGIM Over 5-year index-Linked Gilts Fund	0.10%	0.30%	0.12%
LGIM Pre-Retirement Fund	0.15%	0.30%	-0.02%

* Aberdeen Standard DGF replaced Aberdeen Standard Life GARS Fund with effect from May 2019. Aberdeen Standard DGF fees are increasing over time: Year 1 AMC 0.30%, Year 2 AMC 0.40% and thereafter reverting to the standard AMC of 0.50% by 19 March 2021.

Value for Members

The Trustee is required to undertake a review of the charges and transaction costs incurred by members in order to ascertain whether or not they represent good value for money.

The Trustee appointed a specialist defined contribution consultancy, Punter Southall Aspire, to undertake a value for money assessment of the Scheme to determine that the combination of costs and the quality of what is provided in return for those costs is appropriate for the Scheme membership as a whole, when compared to other options available in the market. The assessment was undertaken taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes providing money purchase benefits).

This review also included a limited assessment of the legacy AVCs arrangements, reflecting the small value of the AVCs in relation to the Scheme's overall DC assets and that the Trustee had agreed that from April 2006, AVC contributions should be invested alongside the defined contribution section assets.

The Trustee concluded that the Scheme's overall benefits and options represent value for members. The reasons underpinning this conclusion include:

- The good quality administration support provided to members.
- The investment governance carried out by the Trustee provides access to investments the Trustee believes are appropriate for members, and action is taken when necessary, as evidenced following the changes made to the Scheme's default strategy, to support the delivery of value for members.
- The AMC on funds have been assessed by the Scheme's advisors as reasonable for this type of arrangement. However, the additional 0.30% p.a. administration charge means that the overall member charges are above average for this type of scheme. The charge cap for this type of scheme is 0.75% p.a. of funds under management.
- The performance of the Scheme's funds over the 3 month, 1 year and 3 years to 5 April 2020 have been within the parameters outlined in the Fund's objectives.

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has set out below an illustration of the impact of charges and transaction costs on different investment scenarios in the Scheme. The illustrations on the projection of an example member's pension savings, have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes".

This is a detailed illustration of the likely impact of charges for a member invested for short, medium and long term in the default fund during the Scheme year, compared to the charge cap requirements of a qualifying workplace pension scheme. This is based on investing within the growth fund of the default strategy – as over 95% of members are invested within the default strategy, the Trustee has not prepared further illustrations in respect of the funds available for members to self-select.

	Total expense ratio (TER)	Short term (5 years)	Medium term (15 years)	Long term (25 years)
The Rexel Growth Fund – No charges.	0.00%	£7,746	£25,253	£45,884
The Rexel Growth Fund Plan charges	0.602%-0.65%	£7,623	£24,029	£42,138
The Rexel Growth Fund Charge cap for qualifying workplace pension scheme	0.75%	£7,597	£23,811	£41,509

Starting assumptions:

- Starting salary: £30,000

- Contributions: £125 per month
- Salary increase: 2% p.a.
- Nominal fund growth: 4% p.a.
- Figures in today's terms based on an assumed inflation rate of 2.2% p.a.

Source: Punter Southall Aspire Pension Calculator

Trustee knowledge and understanding

The Scheme's Trustee directors are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. Each Trustee director must:

Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally,

Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as a trustee director, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment of the assets of occupational pension schemes.

The directors of the Trustee are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme.

A training log is maintained of all the activities undertaken by the Trustee directors individually and as a group.

These requirements have been met during the course of the Scheme year as follows:

- The Trustee directors have undertaken ongoing training, both as a group and individually to keep abreast of relevant developments, including the provision of regular updates from their professional advisers.
- Following identification of Trustee development requirements, group Trustee training took place on 18 September 2019, with sessions delivered by professional advisers that covered these identified needs:
 - Long term funding target / Setting strategic objectives for investment consultants
 - Illiquid training
 - Mortality/member profiling
 - GMP Equalisation
 - Valuation in 2020
 - Statement of Investment principles for ESG and the differences for the DC & DB Sections
 - Current Trustee code/governance and compliance enforced by the tPR
 - Trustee responsibilities
- All new Trustee directors are required to complete the "Mercer Trustee Toolkit Blitz" training.
- All the Trustee directors have since October 2018 signed up to the PMI Trustee Group and membership is renewed annually.
- The Trustee directors are regularly supplied with specific press articles and briefing notes for their review and to complement their own research.

- The Trustee directors regularly review their training needs;
 - o The last formal assesment took place in July 2020
 - o This ongoing review and formal assessment informs the agenda for the annual group Trustee training day

Taking into account the knowledge and experience of the Trustee directors with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisors (e.g. investment consultants, actuary, administrators, and legal advisors), the Trustee directors believe they are well placed to exercise their functions as Trustee directors of the Scheme properly and effectively.

I confirm that the above statement has been produced by the Trustee to the best of its knowledge.

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KJ Mullen, Chair of the Trustee